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Rural Telephone Coalition

EX PARTE OR LATE FILED

October 11, 1996

Mr. William Caton  
Acting Secretary  
Federal Communications Commission  
1919 M Street, N.W.  
Room 222  
Washington, D.C. 20554

**RECEIVED**  
**OCT 11 1996**  
FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF SECRETARY

Re: CC Docket No. 96-45 -- Ex Parte Communication

Dear Mr. Caton:

The attached cover note and short paper were sent today by telecopier to Commissioner Laska Schoenfelder of the South Dakota Public Utilities Commission and Charlie Bolle. The materials were sent in response to a request made by Commissioner Schoenfelder, a member of the Joint Board in the above-referenced proceeding, at a meeting with Rural Telephone Coalition representatives on October 3, 1996. By this filing, the Rural Telephone Coalition provides these materials for association with the ex parte file for this proceeding.

In the event of any questions, please communicate with me or other representatives of the Rural Telephone Coalition.

Very truly yours,

  
Margot Smiley Humphrey

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Rural Telephone Coalition

October 11, 1996

MEMORANDUM

To: Commissioner Laska Schoenfelder  
and Charlie Bolle

From: Rural Telephone Coalition *Margot Humphrey*

Re: Disaggregation of Universal Service  
High Cost Recovery -- CC Docket No. 96-45

We very much appreciated the opportunity to come to Pierre and meet with you about our universal service concerns. As you requested during our visit, we are providing a short statement on why disaggregating support within a rural study area will prevent subsidy windfalls to CLECs and spare nationwide customers of contributing carriers from supporting an unnecessarily large high cost fund.

Please let us know if you have any further questions.

## **UNIVERSAL SERVICE**

### **THE JOINT BOARD SHOULD TARGET “DISAGGREGATED” HIGH COST COMPENSATION WITHIN RURAL STUDY AREAS:**

- The current means of measuring high cost compensation in rural ILEC study areas is not compatible with competition or subsidizing “competing” carriers.
- Costs in rural ILEC study areas vary from the densest “hub” to more sparsely populated outlying parts by up to 10 times or more.
- Current ILEC high cost compensation, calculated as a single amount per line based on the rural ILEC’s average cost per line through out its entire study area, masks these internal cost differences.
- CLECs target their competition to the densest, lowest cost parts of an area.
- This “creamskimming” deprives an ILEC of the above-cost portion of its averaged universal service compensation for its lower cost “hub” customers, leaving the average compensation inadequate to recover the excess costs for serving its highest cost customers -- thereby shifting more costs to the remaining high cost customers and/or the high cost fund ultimately paid for by all customers served by contributing carriers.
- If the CLEC also serves some higher cost customers in its rural study area through resale, it benefits from the subsidy intended for high cost customers because its resale rates are below cost, adding to the adverse impact of its creamskimming.
- If the CLEC serves only the denser rural “hub” with facilities, resells the ILEC’s subsidized service for the remaining sparser parts of the study area and qualifies as a subsidized “eligible telecommunications carrier” (ETC), creamskimming will earn it even more subsidy.
- In this doubly subsidized creamskimming scenario, using the ILEC’s averaged high cost compensation per line to measure the CLEC’s subsidy for serving the dense low cost rural core with facilities will (a) ensure a windfall for the CLEC, (b) overload the universal service fund, (c) increase both the ILEC’s unfair competitive disadvantage and the cost burden on its more rural customers and (d) enable the CLEC to use the windfall to compete unfairly in denser areas.

### **HOW TO AVOID OVERBURDENING THE UNIVERSAL SERVICE FUND AND OVERCOMPENSATING CLECS**

- Allow rural ILECs to use an allocation factor to disaggregate high cost within their study areas into zones or bands that reflect cost differences or into smaller geographic units.
- Limit all ETCs, including CLECs, to recovering their own actual high costs for locations they actually serve with their own facilities.